Preliminary: For office use only;
not for publication. March 28, 1934.

FUNDS FROM DAIRY PRODUCTS FOR PROGRAM INVOLVING BENEFIT PAYMENTS AND/OR SURPLUS REMOVAL

Processing tax[1]/

Size of Tax to be Levied.

The Agricultural Adjustment Act provides that "the processing tax shall be at such rate as equals the difference between the current average farm price for the commodity and the fair exchange value of the commodity; except that is the Secretary has reason to believe that the tax at such rate will cause such reduction in the quantity of the commodity or products there-ofdomestically consumed as to result in the accumulation of surplus stocks of the commodity or products thereof or in the depression of the farm price of the commodity, then he shall cause an appropriate investigation to be made and afford due notice and opportunity for hearing to interested parties. If thereupon the Secretary finds that such result will occur, then the process-ing tax shall be at such rate as will prevent such accumulation of surplus stocks and depression of the farm price of the commodity." Also, "the cur-rent average farm price and the fair exchange value shall be ascertained by the Secretary of Agriculture from available statistics of the Department of Agriculture."

The Fair Exchange Value of Butterfat.

It seems clear that the "fair exchange value" of any agricultural commodity is intended by the Agricultural Adjustment Act to be the price which will give that commodity the same purchasing power over articles farm-ers buy that it had during the period August 1909 to July 1914.

Butterfat or milk fat is sold from the farm in the form of butterfat in milk, butterfat in cream; and as butterfat in farm butter. The average farm price is properly the average price of butterfat sold in these various manners, weighted by the quantity sold in each form. The following table shows the estimated quantities sold from farms in each of these forms in the period 1925 to 1929:

TABLE 1. – Weights Used in Determining Average Farm Price
of Milk and Butterfat

Estimated sales	:	Milk equivalent of sales in hundredweight of 4% milk	:	Butterfat equivalent of sales
Millions of units	:	Millions of cwt.	:	Million pounds
Milk, wholesale: 283 cwt.;		283	:	1132
Butterfat : 1197 lbs.;		299	:	1197
Farm butter : 156 lbs.;		32 [2]/	:	126 [2]/

1/ Estimate of funds from taxes on competing products presented on pages
   3, 4 and 5.
2/ Farm butter estimated to contain 81 percent fat.

The farm prices of butter and butterfat are those currently reported by the Department of Agriculture. The price of milk is the wholesale price paid farmers as determined from reports received by the Department of Agriculture. It thus differs from the milk price currently published by the Department of Agriculture, in that the published figure is an average of both retail and wholesale sales. The retail price of milk has not been included since such sales involve special delivery services and preparation and cannot properly be considered as farm prices.

The weighted average farm price of all butterfat for the United States in the period August 1909 to July 1914 computed in the above manner was 35.1 cents. The corresponding figures for 4 per cent milk per hundredweight was $1.40.

The index of prices paid by farmers for commodities bought, as officially compiled by the Department of Agriculture, is based upon the period August 1909 to July 1914, which is taken as 100. The index in February 1934 was 118. Farm prices of butterfat and milk would need to be accordingly, 118 per cent of what they were in the base period of August 1909 to July 1914 in order to equal the designated fair exchange value of the commodity.

The fair exchange value for all butterfat in February 1934 thus would have been 41.4 cents and that for 4 per cent milk $1.65 per hundredweight.

Because there is a considerable seasonal variation in the prices of milk and butterfat it is desirable that account should be taken of such seasonal variation. Accordingly, the fair exchange values may be adjusted for the seasonal change in price, by multiplying the values for particular months computed from the August 1909 to July 1914 base, by an index of the seasonal variation of these prices in a specified period. Such seasonal correction has been made using the period 1923 to 1929 as a base.

The fair exchange value for all butterfat in February 1934 after adjustment for seasonal variation was 42.9 cents and that for 4 per cent milk $1.71 per hundredweight.

The Current Average Farm Price.

The United States average farm price, reported by the Bureau of Agricultural Economics for February 15, 1934, was 21.6 cents for butterfat and 21.7 cents for farm butter. The farm price of milk sold at wholesale was estimated as $1.48 per hundredweight for the same date. The weighted average farm price of all butterfat as computed for establishing parity was 29.0 cents, and the weighted average farm price of all milk was $1.16 per hundredweight.

The Amount of the Tax allowed by the Act.

The rate of the tax as specified by Act is the difference between the prices at the specified date and the fair exchange value. The fair exchange value of butterfat on February 15, 1934 was 41.4 cents per pound. The average farm price of all butterfat on the same date was 29.0 cents. The rate of tax specified by the Act accordingly would be 12.4 cents per pound of butterfat. The fair exchange value of four percent milk per hundredweight, computed on the same basis was $1.65 per hundredweight for four percent milk. The average price for all milk sales on the same date was $1.16. The tax specified by the Act accordingly would be 49 cents per hundred pounds.

The fair exchange value for all butterfat adjusted for seasonal variation was 42.9 cents per pound on February 15, 1934. The rate of the tax on this basis would thus be 13.9 cents. The fair exchange value of 4 percent milk after adjustment for seasonal variation was $1.71 per hundredweight. The tax specified by the Act would thus be 55.0 cents per hundredweight.

The data pertinent to these computations are in Table 2.

Table 2.-   PARITY PRICES FOR DAIRY PRODUCTS

Year & Month	Prices paid by farmers for commodities bought	Weighted average farm price of dairy products sold 1/		Parity prices		Parity prices adjusted for seasonal variation	
		Butterfat Cents per lb.	Milk Dollars per cwt.	Butterfat Cents per lb.	Milk Dollars per cwt.	Butterfat Cents per lb.	Milk Dollars per cwt.
August 1909 to July 1914	100	35.1	1.40	35.1	1.40	35.1	1.40
1928	153	54.7	2.19	53.7	2.14	53.7	2.14
1929	152	54.3	2.17	53.4	2.13	53.4	2.13
1930	144	45.9	1.84	50.5	2.02	50.5	2.02
1931	124	34.6	1.38	43.5	1.74	43.5	1.74
1932	107	25.4	1.01	37.6	1.50	37.6	1.50
1933	109	25.5	1.02	38.3	1.53	38.3	1.53
January	102	24.9	1.00	35.8	1.43	37.4	1.49
February	101	22.2	.89	35.5	1.41	36.8	1.46
March	100	21.2	.85	35.1	1.40	35.9	1.43
April	101	21.7	.87	35.5	1.41	35.3	1.40
May	102	24.3	.97	35.8	1.43	34.8	1.39
June	103	24.8	.99	36.2	1.44	34.4	1.37
July	107	27.9	1.12	37.6	1.50	35.8	1.43
August	112	26.3	1.05	39.3	1.57	37.4	1.49
September	116	27.8	1.11	40.7	1.62	40.2	1.60
October	117	28.6	1.14	41.1	1.64	41.8	1.67
November	116	28.7	1.15	40.7	1.62	41.9	1.67
December	116	27.3	1.09	40.7	1.62	42.5	1.69
1934							
January	116	25.7	1.03	40.7	1.62	42.5	1.69
February	118	29.0	1.16	41.4	1.65	42.9	1.71

1/ Not including milk retailed by farmers.

- 5 -

Tax Base.

Milk production on farms in 1932 was estimated as 101,863,000,000 pounds. Of this quantity about 13 billion pounds were utilized on farms as milk or cream, some 12 billion pounds were used for making farm butter, only a small part of which would be taxable, and about seven billion pounds were sold at retail by producers, of which four billion pounds are estimated as untaxable.

The detailed calculations of milk produced which is not taxable is as follows:

a. Milk definitely not taxable:
Fed to calves, herds of all size   2,784,000,000 pounds
Used for food on farms   10,140,000,000   "
                               Total   12,924,000,000   "

b. Milk for farm butter, not taxable.

Table 3.- Estimated poundage of milk used in making butter on farms
where produced, which is not taxable 1/

Size of herd cows	Milk used for farm butter						Total U. S.	Estimated milk used not taxable
	N.A.	E.N.C.	W.N.C.	S.Atl.	S.C.	West.		
	Million Pounds							
1	92	139	150	672	1,182	116	2,351	2,351
2-3	282	387	562	805	1,917	192	4,145	4,145
4-5	209	261	530	324	715	72	2,111	2,111
6-10	210	293	679	230	463	74	1,949	1,706
11-20	96	153	312	83	147	35	826	275
21-30	30	20	20	7	25	10	112	37
31-50	8	3	3	2	13	3	32	11
Over 50	1	1	1	1	4	2	10	3
Total	928	1,257	2,257	2,124	4,466	504	11,536	10,639

1/ Assumes no milk taxable in 1-5 cow herds. Half of sales in 6-10 cow herds taxable, basing sales on average of all size herds and two-thirds of butter made in all herds of over 10 cows taxable.

c. Milk equivalent of milk and cream sold at retail is estimated as 6,947,000,000 pounds. Of this quantity, 4,400,000,000 pounds is estimated as not taxable. This assumes that no milk retailed by "producer-distributors" with less than 15 cows is taxable.

The quantity of milk (and milk equivalent of cream) used for fluid consumption is summarized in Table 4.

Table 4.— Estimated quantity of milk (and milk equivalent of cream) used for fluid consumption, 1932 [1]

Population of cities	Population adjusted for urban farm	Assumed milk consumption per capita per year	Apparent consumption of milk	Assumed produced by cows not in farms	Assumed purchased from producers	Assumed purchased from dealers	Assumed purchased from producers with 15 cows or less [2]
	thousands	pounds	million pounds	million pounds	million pounds	million pounds	million pounds
Nonfarm Urban							
Over 10,000	58,340	350	20,419	-	300	20,119	20
5,000 - 10,000	5,807	350	2,032	-	500	1,532	80
2,500 - 5,000	4,518	350	1,581	100	700	781	100
Nonfarm Rural							
Over 1,000	4,721	330	1,558	300	858	400	300
Under 1,000	18,941	300	5,682	2,400	2,900	382	2,500
Total	92,327		31,272 [3]	2,800	5,258	23,214	3,000
Farms with no Cows or dry							
Cows only	10,567 [4]	148 [4]	1,566 [4]	-	1,506	60	1,400
Total			32,838	2,800 [4]	6,764 [4]	23,274	4,400
On farms with Milking cows	19,881 [4]	550 [4]	10,919				
TOTAL	122,775						

[1] These estimates are not official
[2] Included in assumed purchases from producers
[3] Adding 116,000,000 pounds for consumption of 290,000 people on urban farms at 400 pounds per capita gives 31,388,000,000 compared with detailed computation 32,513,042,000
[4] As calculated by states.

d. Milk produced by cows not on farms, of which none is assumed to be taxable, 2,800,000,000 pounds.

A summary of the above shows the following:

Milk produced by cows on farms		101,863,000,000 pounds
Milk produced by cows not on farms		2,800,000,000 "
Total milk produced		104,663,000,000 pounds
Less milk not taxable:		
Fed to calves	2,806,000,000 pounds	
Used for food	11,969,000,000 "	
Used for farm butter	10,639,000,000 "	
Retailed by producers	4,400,000,000 "	
Milk produced by cows not on farms	2,800,000,000 "	
Total not taxable		32,614,000,000 pounds
Estimated milk which is taxable		72,049,000,000 "
Estimated fat taxable (assuming 3.9% fat in milk)		2,809,911,000 "

On the basis of value the bases for tax purposes, using 1932 data, are estimated as follows:

	Cash returns to producers	Estimated taxable
Milk and cream sold, wholesale	$435,804,000	$435,804,000
Milk and cream sold, retail	285,825,000	100,039,000
Butterfat sold	234,153,000	234,153,000
Farm butter sold	29,317,000	4,398,000
Total	$985,099,000	$774,394,000

.Tax yield.

On the basis of the above data, the returns from taxes on milk and its products under various rates is summarized in Table 5:

Table 5.--

Estimated returns from taxes on milk and its products.

Tax per pound of fat		Tax per hundred pounds of milk		Tax percent of returns to producers	
Rate	Yield	Rate	Yield	Rate	Yield
Cents	1000 dollars	Cents	1000 dollars	Percent	1000 dollars
1	27,000	4	27,000	4	32,000
2	54,000	8	53,000	8	57,000
3	81,000	12	79,000	11	80,000
4	105,000	16	105,000	14	105,000
5	133,000	20	135,000	18	135,000
6	160,000	24	160,000	22	160,000

On the basis of the above estimated yields, the percentage of total funds which would be secured from milk would be lowest under a tax per pound of fat, somewhat greater under a tax per hundredweight, and highest under a tax levied as the basis of the percentage of farm values. Milk sold as butterfat on the other hand would pay the highest percentage under a tax per pound of butterfat. The result of such calculations are summarized in Table 6:

Table 6.-

Estimated percent of tax receipts which would be derived from milk or its products according to method of sale and specified tax rates.

Tax rate	Method of Sale			
	Milk at wholesale	Milk at retail	Butterfat	Farm butter
	Percent	Percent	Percent	Percent
1 cent per pound fat 1/	45	3	49	3
4 cents per hundred pounds of milk 1/	47	3	47	3
3.5 percent of farm prices	53	13	33	1

1/ Such a tax would yield approximately $27,000,000.

The following table summarizes the tax yield by states and indicates the percent of total yield collected in each state if such a tax per pound of fat were levied as would yield about $25,000,000.

Table 7.— Estimated taxes per state under a tax rate per pound of fat yielding about $25,000,000.

State	Yield	Percent of U. S. total	State	Yield	Percent of U. S. total
	1,000,000 dollars	Per cent		1,000,000 dollars	Per cent
Maine	110	.5	N.C.	55	.2
N. H.	93	.4	S.C.	17	.1
Vermont	400	1.6	Georgia	73	.3
Mass.	195	.8	Florida	38	.2
R. I.	40	.2	Ky.	350	1.4
Conn	142	.6	Tenn.	250	1.0
N. Y.	1,927	7.7	Ala.	58	.2
N. J.	155	.6	Miss.	190	.8
Pa.	951	3.8	Ark.	133	.5
Ohio	1,076	4.3	La.	72	.3
Indiana	876	3.5	Okla.	475	1.9
Illinois	1,151	4.6	Texas	601	2.4
Michigan	1,076	4.3	Mont.	190	.8
Wisconsin	3,502	14.0	Idaho	275	1.1
Minnesota	2,277	9.1	Wyo.	73	.3
Iowa	1,702	6.8	Colo.	300	1.2
Missouri	851	3.4	N.Mex.	45	.2
N. D.	500	2.0	Ariz.	40	.2
S. D.	575	2.3	Utah	159	.6
Nebraska	676	2.7	Nevada	30	.1
Kansas	776	3.1	Wash.	475	1.9
Delaware	28	.1	Oregon	375	1.5
Maryland	188	.8	Cal.	1,126	4.7
Virginia	160	.6			
W. Va.	73	.3	Total	24,900	100.0

Table 8 summarizes benefit payments for farms were such payments to be made on the basis of pounds of fat produced or some similar basis. These data are presented to indicate an index of the amount of benefit payments which could be made per farm.

Table 8.--

Estimated distribution of benefit payments totalling $27,000,000 by size of herd groups and per farm.

Cows per herd	Number of farms	Benefit Payment Total	Percent of U. S. Total	Average per farm
Numbers	Numbers	1,000 dollars	Per cent	Dollars
2 to 3	450,000	1,282	4.8	3
4 to 5	522,000	2,808	10.4	5
6 to 10	718,000	8,154	30.2	11
11 to 20	352,000	9,180	34.0	26
21 to 30	55,000	3,051	11.3	55
31 to 50	19,000	1,418	5.2	76
Over 50	6,000	1,107	4.1	183
Total	2,122,000	27,000	100.0	127

Number of units involved in a tax or control program. The following tables are presented for the purpose of giving some indication of the number of plants or farms involved.

For the collection of processing taxes the following units would be contacted:

	Number
Creameries	4,424 1/
Cheese Factories	3,339 2/
Condenseries	250
Evaporated Milk Plants	449
Ice Cream Plants	3,619
Dried Milk Products Plants	1,026
Milk Distributors	32,000
Total Number of Plants	45,107 3/
Producer Distributors	663,431 4/
Total	708,538
Jobbers, wholesalers, and jobbing and direct distributors	4,000 5/

1/ Delivering cream to the centralized creameries there are 25,927 cream stations.   These handle about one-third of all butterfat sold by farmers. If a record of individual farm sales is to be obtained, it would be necessary to contact each of the cream stations.

2/ This does not include makers of cottage, pot and bakers' cheese of whom there are 1,010.

3/ No allowance for plants handling several products.

4/ It is estimated that farms selling cream not as butterfat are mostly producers who retail milk and that of those who sell milk about 73,000 are small producer-distributors who would be exempt from processing taxes and to whom benefit payments would not be made.

5/ Estimated from data in American Creamery & Poultry Produce Review, Section 2.

If payment of benefits were to be made directly to producers there would be about 2,250,000 such farms on the basis, data presented in the following tables:

Number of farms selling butterfat	1,556,487
15% of farms selling farm butter	96,600
Farms selling milk 1/	663,431
Total	2,316,518

1/ It is estimated that farms selling cream not as butterfat are mostly producers who retail milk and that of those who sell milk about 73,000 are small producer distributors to whom benefit payments are impractical. In the South Atlantic Region 98 per cent of all farms having cows have 10 or less and 1/4 of all milk sold is from herds of under 11 cows. In this area 1/3 of all milk sold by farmers is sold at retail. In the South Central Region these figures are 98 per cent, 1/3 and 1/3 respectively and in the West North Central Region these figures are 76 per cent 1/4 and 1/3 respectively. While it is impossible to compute from available data how many of those with the small herds sell any milk or how many are retailers it seems reasonable that one-half of the 259,245 in these three regions that sell milk are too small to consider in any plan of benefit payments to individual farmers on the assumptions that herds of 10 cows or less from which the owner retails the milk are impractical to include in a scheme for benefit payments and that in herds of 3 or less even when sales are to a distributor or other processor the owner would probably not be interested due to the trifling amount of benefit which he could be paid.

Table 9.- Number of farms in the 1929 Census reporting milk sold, butter sold, cream sold as butterfat, cream sold not as butterfat.

Region	Milk sold	Butter sold	Cream sold as butterfat	Cream sold not as butterfat
	Number	Number	Number	Number
North Atlantic	226,236	83,982	25,424	9,055
East North Central	329,511	60,007	381,248	13,358
West North Central	90,780	56,842	712,877	19,016
South Atlantic	57,233	197,096	40,070	4,728
South Central	111,232	227,194	267,343	14,478
Western	78,439	18,873	129,525	7,400
United States	893,431	643,994	1,556,487	68,035

Table 10.- Estimated percentage of milk cows by size of herds.

Region	Size of Herd							
	1 cow	2-3	4-5	6-10	11-20	21-30	31-50	50 & over
N. Atlantic	2.4	6.9	8.3	23.1	33.0	15.2	8.0	3.1
E. N. C.	2.2	10.7	15.5	31.6	30.5	7.0	2.0	0.5
W. N. C.	1.8	9.1	15.5	40.7	27.7	3.8	1.1	0.3
S. Atlantic	23.7	30.8	12.3	12.8	10.0	4.1	3.2	3.1
S. Central	17.4	32.1	17.4	16.8	8.6	3.0	2.5	2.2
Western	3.9	10.1	11.4	23.0	21.0	9.4	9.0	12.2
United States	6.5	14.9	14.3	28.2	23.8	6.5	3.4	2.4

Table 11. - Milk Sold as Whole Milk, Wholesale and Retail

Size herd	U. S.	N. A.	E. N. C.	W. N. C.	S. A.	S. C.	Western
	Mil. lbs.	Mil. lbs.	Mil. lbs.	Mil. lbs.	Mil.lbs.	Mil.lbs.	Mil.lbs.
1 cow	-	17	10	-	25	45	17
2-3 cows	-	194	257	63	44	116	107
4-5 cows	-	654	753	227	48	178	292
6-10 cows	-	2,787	4,217	579	295	583	587
11-20 cows	-	5,058	6,665	1,618	569	622	1,197
21-30 cows	-	2,585	1,857	541	302	446	845
31-50 cows	-	1,342	571	148	210	382	1,020
51 and over	-	445	141	107	225	416	1,467
Total		13,082	14,471	3,283	1,718	2,788	5,532
Published Estimate	40,737	13,089	14,470	3,274	1,782	2,819	5,303

Milk used for making Butter on Farms where produced

Size herd	U. S.	N. A.	E. N. C.	W. N. C.	S. A.	S. C.	Western
1 cow	-	115	117	203	710	1,351	150
2-3 cows	-	330	385	484	858	2,316	138
4-5 cows	-	218	411	568	350	754	71
6-10 cows	-	212	422	631	215	481	81
11-20 cows	-	56	166	449	37	196	62
21-30 cows	-	14	51	45	7	25	14
31-50 cows	-	29	--	3	1	26	--
51 and over	-	--	--	--	--	5	18
Total	12,885	974	1,612	2,383	2,228	5,154	534
Published Estimate	11,536	928	1,257	2,257	2,124	4,466	504

Milk fed to Calves

Size herd	U. S.	N. A.	E. N. C.	W. N. C.	S. A.	S. C.	Western
1 cow	138	14	31	17	25	44	7
2-3 cows	358	59	64	84	44	77	30
4-5 cows	353	46	103	133	14	22	36
6-10 cows	786	106	295	263	16	25	81
11-20 cows	771	113	280	270	8	25	75
21-30 cows	214	56	77	44	3	6	28
31-50 cows	119	29	19	9	5	5	52
51 and over	44	5	3	3	5	10	18
Total	2,784	428	872	823	120	214	327
Published Estimate	2,806	429	835	872	118	197	355

Table 12.- Milk Sold as Cream (mostly butterfat)

Cows numbers	United States million pounds	North Atlantic million pounds	East North Central million pounds	West North Central million pounds	South Atlantic million pounds	South Central million pounds	Western million pounds
1	-	3	50	63	-	44	10
2 - 3	-	42	962	1,031	87	386	305
4 - 5	-	126	1,849	2,388	103	865	372
6 - 10	-	176	2,952	8,203	160	1,166	1,113
11 - 20	-	198	1,771	6,200	46	679	1,048
21 - 30	-	85	487	800	10	112	479
31 - 50	-	29	12	138	12	101	209
Over 51	-	5	2	2	-	49	250
Total	-	664	8,085	18,825	418	3,402	3,786
Published Estimate	34,815	692	8,086	18,369	374	3,408	3,886

Milk used for food

Cows numbers	United States million pounds	North Atlantic million pounds	East North Central million pounds	West North Central million pounds	South Atlantic million pounds	South Central million pounds	Western million pounds
1	-	139	166	140	507	731	151
2 - 3	-	220	471	442	422	965	183
4 -5	-	103	308	474	172	399	115
6 - 10	-	247	548	841	112	279	162
11 - 20	-	226	419	449	49	114	112
21 - 30	-	85	90	52	13	31	42
31 - 50	-	29	12	9	6	16	26
Over 51	-	7	2	3	5	10	36
Total	10,140	1,056	2,016	2,410	1,286	2,545	827
Published Estimate	11,969	1,066	2,408	2,952	1,372	3,213	958

TABLE 13. - Percentage of Milk Utilized for each Purpose on Farms of Correspondents. United States Averages for Reports from Dairy Correspondents Reporting to Washington, D. C., Combined with Semi-Annual Reports from Small Herds. Farms Classified According to Number of Milk Cows Reported on Hand.

Size of herd	August 1, 1932							February 1, 1933							
	Number of reports tabulated	% of milk utilized for each purpose						Number of reports tabulated	% of milk utilized for each purpose						
		Sold as whole milk	Sale of cream	Used for food as cream	Fed to calves	Making butter as cream	Farm use as cream		Sold as whole milk	Sale of cream	Used for food as cream	Fed to calves	Making butter as cream	Farm use as cream	Milk and cream sales %
1 cow	707	2.8	4.6	52.4	12.2	25.0	3.0	758	2.3	4.4	59.3	13.5	16.6	3.9	6.7
2-3 cows	1,581	7.6	26.0	39.4	8.2	16.0	2.8	2,370	6.5	23.9	45.1	11.3	9.9	3.3	30.4
4-5 "	511	16.6	46.4	20.9	4.7	8.3	3.1	924	16.4	40.9	26.9	7.6	5.8	2.4	57.3
6-10 "	840	35.4	45.8	9.7	2.4	5.5	1.2	1,181	34.6	45.8	9.8	4.2	3.7	1.9	80.4
11-20 "	758	53.1	35.9	4.2	1.3	4.0	1.5	1,110	54.2	35.5	3.4	2.2	2.8	1.9	89.7
21-30 "	177	69.7	24.2	1.4	.8	2.7	1.2	245	70.0	22.8	2.0	1.6	1.8	1.8	92.8
31-50 "	71	78.7	13.0	3.3	.4	2.6	2.0	128	78.5	15.8	1.7	1.2	1.4	1.4	94.3
Over 50"	25	85.8	10.0	.6	.2	1.7	1.7	38	87.6	7.1	1.3	1.8	1.3	.9	94.7

Incidence.

In connection with the levying of a processing tax on milk and its products, such data as are available indicate that such taxes would tend to be borne by producers in the absence of restriction in production or marketing. The principal basis for this conclusion lies in the relationship of butter prices to such factors as payrolls supported by fragmentary studies of demand for butter, and the close relationship between the prices of butter, cheese, milk and other dairy products. This latter relationship tends, under conditions of relatively free competition, to bring about the result set forth, even though the demand for milk used for consumption as milk, and the demand for cream for restaurant, hotel and ice cream use may be relatively inelastic. 1/

The above result undoubtedly can be nullified, and the tax shifted largely to consumers, dealers, and to a lesser extent to other products, under agreements for milk and cream under the Agricultural Adjustment Act. It is likewise possible that a part of the tax apparently might be absorbed for a time in those products where there is little relationship between farm and retail price.

1/ See United States Department of Agriculture Miscellaneous Publication No. 124. "The Outlook for the Dairy Industry and some Essentials of a National Dairy Program."

Additions to and Deductions from the Tax Yield.

    a. Processing tax on imports of dairy products.

       Imports of dairy products are small in comparison with the total quantity produced in this country. Assuming imports this year to equal the average for the last three years -- namely, 18 million pounds of butterfat -- a processing tax of one cent per pound would in consequence yield $180,000.

    b. Refunds for exports of dairy products.

       Exports, like imports, are small in comparison to total domestic production. The quantity exported in the future can be only partially estimated but since the prices in the United States are generally above world levels, it does not appear that any important changes in the volume exported, relative to quantities exported in recent years, would result from the processing tax. The average of exports in the past three years represents slightly over $6\frac{1}{2}$ million pounds of butterfat. On this basis, a levy of one cent would result in refunds of about $66,000.

    c. Refunds on products for relief purposes.

       The quantity of milk and other dairy products distributed for relief purposes is difficult to estimate. Assuming 150 million pounds of butterfat to be used for relief purposes in 1934, refunds would aggregate $1\frac{1}{2}$ million dollars, if a one cent tax were in effect.

d. Taxes and refunds on Floor Stocks.

Assuming no changes in stocks of dairy products as of April 1,
1934 and April 1, 1935, and the same tax rate at each date, it is
unnecessary to make allowance for these items since there would be
no effect upon the net tax yield.

A summary of the effect of these factors upon the net yield,
with various tax rates is given below.

Table 14.- Estimated additions to and deductions from the total tax yield.

| Tax per pound of fat | Additions: Tax on Imports | Deductions (refunds) | | | Net Deductions |
		Exports	Relief Products	Total	
Cents	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars
1	178	66	1,500	1,566	1,388
2	356	132	3,000	3,132	2,776
3	534	198	4,500	4,698	4,164
4	712	264	6,000	6,264	5,552
5	890	330	7,500	7,830	6,940

e. Returns and refunds on competing products.

Production of oleomargarine has in recent years averaged about
225 million pounds, with exports of about 436 thousand pounds.
Imports have been negligible. The quantity of oleomargarine used
for relief purposes is not known. Assuming that a fifth of the
present production is used in this manner, the amount would represent
about 45 million pounds.

The effect of various rates on the compensating tax is shown in
Table 15.

Table 15.- Yields under varying rates of a compensating tax on oleomargarine

Tax per pound		Returns from tax		Refunds						Net Returns
				Exports		Relief Products		Total		
		1,000 dollars		1,000 dollars		1,000 dollars		1,000 dollars		1,000 dollars
Cents										
1	:	2,250	:	4	:	450	:	454	:	1,796
2	:	4,500	:	9	:	900	:	909	:	3,591
3	:	6,750	:	13	:	1,350	:	1,369	:	5,381
4	:	9,000	:	17	:	1,800	:	1,817	:	7,183
5	:	11,250	:	22	:	2,250	:	2,277	:	8,973

On the basis of the above data, the estimated net tax yield would be as follows:

Table 16.- Estimated net tax yield after allowances

Rate per pound		Yield from butterfat tax		Net deductions		Net yield from butterfat		Net additions from compensating tax on oleomargarine		Total yield from processing tax
		1,000 dollars		1,000 dollars		1,000 dollars		1,000 dollars		1,000 dollars
Cents	:									
1	:	27,000	:	1,388	:	25,612	:	1,796	:	27,408
2	:	54,000	:	2,776	:	51,224	:	3,591	:	54,815
3	:	81,000	:	4,164	:	76,836	:	5,381	:	82,217
4	:	105,000	:	5,552	:	99,448	:	7,183	:	106,631
5	:	133,000	:	6,940	:	126,060	:	8,973	:	133,033